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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 000342

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SUBJECT: JAPAN MAKES ECONOMIC OVERTURES TO CHINA, BUT
BEIJING REMAINS COOL

Classified By: CDA Joseph R. Donovan. Reason: 1.4 (b,d)

1. (C) Summary: Despite growing cooperation on energy and the environment, Japanese officials in MOFA and METI report an overall lack of progress on advancing economic relations with China. To date, China has rejected Japan's request for an agreement on food safety -- a particularly hot topic given the current furor over insecticide-laced Chinese frozen dumplings. In addition, three-way investment talks with China and Korea are stuck over Chinese refusal to guarantee national treatment for future ventures. Chinese officials reportedly are stonewalling on measures to improve transparency, especially at the local level where Japanese companies feel particularly susceptible to mistreatment by the authorities. Japanese officials blame some of the problem on jealousies and maneuvering within the Chinese bureaucracy, and they seem dubious as to whether there will be significant progress in advance of Chinese President Hu's visit this spring to Tokyo. End summary.

Japan Seeking Food Safety Agreement with China

2. (C) Japan would like an agreement on food and feed safety with China's General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) similar to what AQSIQ signed with the U.S.

Department of Health and Human Services at the last meeting of the U.S.-China Strategic Economic Dialogue (SED), according to MOFA China Economic Division Director Morio Matsumoto. In a discussion with EAP/J Deputy Director for Economic Affairs Jessica Webster and emboff, Matsumoto said Japan's Ministry of Health, Labor, and Welfare (MHLW) was pushing for an agreement but AQSIQ was not enthusiastic about the proposal. Rather, AQSIQ would like MHLW to arrange a symposium on food safety at which Chinese authorities can demonstrate their efforts to ensure the quality of food exported to Japan. This idea, however, did not appeal to MHLW, Matsumoto noted.

Environment Projects Aim To Maintain Japan's "Friends" in Chinese Bureaucracy

13. (C) Matsumoto pointed to growing cooperation between Japan and China on energy and environment. The Ministry of Economy, Trade, and Industry (METI) already had projects in China focused on increasing China's coal-fired power plant efficiency. The Ministry of Environment is looking at supporting similar projects, Matsumoto said. He noted several "environmentally advanced" localities in Japan also have cooperative relationships with Chinese cities to improve Chinese local authorities' ability to deal with environmental issues. Matsumoto indicated that, with the termination of Japan's previous program of infrastructure-targeted yen loans to China, the GOJ is looking for new projects, particularly ones that would

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benefit the environment, where Japanese funding might be used. A key goal is to keep supporting the substantial numbers of Chinese officials who had administered GOJ-funded projects in the past. According to Matsumoto, these individuals are a valuable resource that the GOJ hopes to maintain.

Talks on Investment to Intensify

14. (C) Negotiations between China, Japan, and South Korea on a three-way investment agreement are coming under greater political pressure to show faster progress as Chinese President Hu Jintao's visit to Japan later in the spring draws nearer, Matsumoto said. Previous rounds had led to development of a basic negotiating text, but discussions on details have yet to begin in earnest. The next round, probably in March, would mark the start of serious efforts to secure an agreement, Matsumoto stated.

15. (C) METI's chief goal regarding China centers on ensuring the business environment for Japanese companies does not deteriorate, according to METI Multilateral Trade Division Deputy Director Yasujiro Miyake. In a separate meeting with EAP/J Deputy Director Webster, Miyake noted, that while China has embraced "new generation" investment agreements superior to the limited agreement China and Japan concluded in 1989, China continues to resist pre-establishment of national treatment. (Note: "Pre-establishment" denotes a general guarantee of national treatment for future investments, albeit invariably with exceptions for certain "sensitive" sectors which are usually stipulated in a bilateral agreement. End note.) Miyake cited the revised investment agreement between China and South Korea which, while providing national treatment for existing investment, does not provide for pre-establishment for future investment and maintains exceptions for current non-conforming measures. Japan hoped to convince China through the three-way talks to accept the principles in the Japan-

South Korea investment agreement, a high-standard pact in the Japanese view. Miyake stressed Japan's investment agreements primarily bind the partner state to its existing investment regulations, not push the envelope for greater access. He was interested whether the U.S. had a similar stance particularly regarding pre-establishment of national treatment.

16. (C) METI Northeast Asia Division Director Shigeaki Tanaka elaborated on Miyake's points, emphasizing the concerns from Japanese business about the Chinese authorities new restrictions on foreign investment. Investment in heavy industries -- Tanaka cited the paper industry as an example -- has become more difficult. That said, China's interest in establishing state-investor arbitration provisions to protect increasing Chinese investment in Japan and Korea is helping to move the trilateral talks forward, Tanaka indicated. Japan, Tanaka observed, would prefer to conclude the three-way agreement relatively

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quickly. However, continued Chinese reluctance toward pre-establishment of national treatment -- which Korea insists be included in any future agreement -- has slowed progress.

17. (C) Tanaka traced China's tighter controls on investment to an internal debate in Beijing starting in 2004 between the pro-investment Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC) which wanted to relieve pressure from foreign competition on domestic industries. Although then-Commerce Minister Bo Xilai successfully forestalled the most serious proposals to tighten investment controls, the trade-off had been to maintain China's hard line against pre-establishment of national treatment. According to Tanaka, Bo told METI Minister Akira Amari not to expect China to accept pre-establishment for at least another five years.

Chinese Reject Suggestions for Transparency Projects

18. (C) During the Japan-China High-level Economic Dialogue (HED) in December, Amari conveyed the GOJ's concerns over the environment for Japanese companies doing business in China, particularly regarding transparency, to his Chinese counterparts. The METI Minister proposed a joint expert study group that could compare Chinese and Japanese administrative procedures and mechanisms for transparency. The Chinese side refused the suggestion. According to Tanaka, the State Council Legislative Affairs Office welcomed the idea, but MOFCOM, which led the Chinese side in the HED, rejected the offer. Amari also floated the idea of a government-private sector dialogue with China on administrative transparency, the results of which would be shared with MOFCOM and METI. Participants would be Japanese industry associations and municipal-level governments in China where, Tanaka asserted, most of the regulatory decisions of direct interest to Japanese businesses are made. MOFCOM, however, again rejected Amari's proposal.

19. (C) Tanaka said METI would like to initiate a comparative study of the business climate in China and those in other Asian countries, along the lines of the ASEAN Common Investment Climate Initiative. Following precedents set by Taiwan firms, JETRO had already completed an exercise comparing relative conditions in different areas of China itself. Now, Tanaka suggested, it would be useful to compare China with its neighbors in the region. He asked whether the USG

had prepared or knew of any comparative studies of China in this regard.

Comment

¶10. (C) Japanese officials' frustration with their incapacity to convince their Chinese counterparts to

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commit to concrete cooperation as they have with the U.S. under the SED umbrella was obvious. Interestingly, the Japanese -- no strangers to internecine turf wars themselves -- consistently cited disputes within the Chinese bureaucracy as the main obstacle to greater results. The row over pesticide-laced Chinese frozen dumplings imported to Japan, which hit Japan's media January 31, may give new impetus for Beijing to conclude a food safety agreement. (The topic is a leading item on the agenda of Vice Foreign Minister Yabunaka when he visits China later in February in preparation for Hu Jintao's Japan trip, according to press reports.) Nevertheless, Japanese bureaucrats fear securing serious economic deliverables for the Chinese President's visit will be a difficult, possibly painful task.
DONOVAN